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FISCAL IMPACT STATEMENT

LS 6296

BILL NUMBER: HB 1039

NOTE PREPARED: Nov 21, 2002

BILL AMENDED:

SUBJECT: College Contribution Income Tax Credit.

FIRST AUTHOR: Rep. Ruppel

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ GENERAL
☒ DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill increases the maximum Adjusted Gross Income (AGI) Tax credit for contributions by individuals to Indiana institutions of higher education from \$100 to \$200 for single returns and from \$200 to \$400 for joint returns.

Effective Date: January 1, 2003 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this credit. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: *Summary:* The bill would reduce state AGI Tax liabilities of individual taxpayers who make charitable contributions to Indiana institutions of higher education in excess of the current limits for the college tax credit. The revenue loss due to this bill could potentially total \$5.1 M to \$5.6 M in FY 2004 and \$5.1 M to \$5.8 M in FY 2005. The low estimate each year assumes that the number of individual taxpayers who currently make sufficient contributions to claim the maximum credit will in the future make sufficient contributions to claim the proposed maximum credit. The high estimate each year assumes that the recent annual growth in the number of filers claiming the maximum credit level will continue in the future.

Background: Under current law, individuals may claim an AGI Tax credit that is limited to 50% of charitable contributions to Indiana higher education institutions up to a maximum of \$100 for a single taxpayer or \$200 for taxpayers filing a joint return. The bill increases the maximum credit amounts for individuals to \$200 for

single filers and \$400 for joint filers. As a result, the bill would reduce AGI tax liabilities for individuals who make charitable contributions to Indiana's higher education institutions in excess of the current credit limits. Since the increase in the credit limits is effective beginning in tax year 2003, the fiscal impact would begin in FY 2004. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

According to individual tax return data for tax year 2000, 85,260 individual taxpayers claimed approximately \$8.2 M in credits for contributions to Indiana higher education institutions. Of the total, 252 separate return filers and 8,670 single return filers claimed the maximum \$100 credit, and 20,905 joint filers claimed the \$200 maximum credit. We assume that taxpayers currently claiming less than the maximum credit would not increase their higher education contributions solely due to an increase in the credit limit. We also assume that only taxpayers currently claiming the maximum credit would claim the maximum credit under the limits set by the bill beginning in 2003. Thus, the increase in the credit limit would reduce income tax revenue by approximately \$5.1 M beginning in FY 2004. Since 1998, however, the number of individual taxpayers claiming maximum credit amounts has risen by an average of 3.31% annually. By filer status, annual growth has averaged 3.38% for single return filers, 2.05% for separate return filers, and 3.38% for joint return filers. Accounting for the potential growth in filers claiming maximum credit amounts, the revenue loss from the bill could total approximately \$5.6 M in FY 2004 and \$5.8 M in FY 2005.

Impact on Higher Education Institutions: This bill may result in an increase in charitable contributions to institutions of higher education. The portion of any increase which will be realized by state institutions is not known.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Higher education institutions.

Local Agencies Affected:

Information Sources: OFMA income tax databases for 1996-2000.

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